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UNITED STATES BANKRUPTCY COURT

DISTRICT OF NEVADA

In re:

STATION CASINOS, INC.

- ☐ Affects this Debtor
- ☒ Affects all Debtors
- ☐ Affects Northern NV Acquisitions, LLC
- ☐ Affects Reno Land Holdings, LLC
- ☐ Affects River Central, LLC
- ☐ Affects Tropicana Station, LLC
- ☐ Affects FCP Holding, Inc.
- ☐ Affects FCP Voteco, LLC
- ☐ Affects Fertitta Partners LLC
- ☐ Affects FCP MezzCo Parent, LLC
- ☐ Affects FCP MezzCo Parent Sub, LLC
- ☐ Affects FCP MezzCo Borrower VII, LLC
- ☐ Affects FCP MezzCo Borrower VI, LLC
- ☐ Affects FCP MezzCo Borrower V, LLC
- ☐ Affects FCP MezzCo Borrower IV, LLC
- ☐ Affects FCP MezzCo Borrower III, LLC
- ☐ Affects FCP MezzCo Borrower II, LLC
- ☐ Affects FCP MezzCo Borrower I, LLC
- ☐ Affects FCP PropCo, LLC

Chapter 11

Case Nos. BK-N-09-52470-GWZ
 through BK-N-09-52487-GWZ

Jointly Administered Under
 BK-N-09-52477-GWZ

SUPPLEMENTAL OBJECTION OF THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS TO THE DEBTORS' (I) REVISED SECOND AMENDED AND RESTATED MASTER LEASE COMPROMISE AGREEMENT and (II) MOTION FOR ENTRY OF ORDER ESTABLISHING BIDDING PROCEDURES AND DEADLINES RELATING TO SALE PROCESS FOR SUBSTANTIALLY ALL OF THE ASSETS OF STATION CASINOS, INC. AND CERTAIN "OPCO" SUBSIDIARIES

Hearing Date: May 4, 2010
 Hearing Time: 1:00 p.m.
 Place: 300 Booth Street
 Reno, Nevada 89509

TO THE HONORABLE GREGG W. ZIVE AND ALL PARTIES IN INTEREST:

The Official Committee of Unsecured Creditors (the “Committee”) appointed in the chapter 11 bankruptcy cases of the above-captioned debtors and debtors in possession, including Station Casinos, Inc. (“SCI”) and FCP PropCo, LLC (“PropCo” and with SCI, collectively, the “Debtors”), hereby respectfully submits this supplemental objection (the “Supplemental Objection”) to the Debtors’ *Notice of Submission of Revised Second Amended and Restated Master Lease Compromise Agreement In Connection with the Joint Motion of Station Casinos, Inc. and FCP PropCo, LLC Pursuant to 11 U.S.C. §§ 105(a), 363(b)(1), 365(d)(3) and 365(d)(4)(B)(ii) and Fed. R. Bankr. P. 9019 for Entry of an Order Approving Second Amendment to Amended and Restated Master Lease Compromise Agreement* [Docket No. 1215] (the “Revised SMLCA”), and the Debtors’ *Notice of Submission of Revised Motion For Entry Of Order Establishing Bidding Procedures And Deadlines Relating To Sale Process For Substantially All Of The Assets Of Station Casinos, Inc. And Certain “Opco” Subsidiaries* [Docket No. 12] (the “Revised Bid Procedures”, together with the Revised SMLCA, the “Revised Motions”). This Supplemental Objection is supported by the Supplemental Declaration of Bonnie Steingart (the “Steingart Supplement”) and the Request to Judicial Notice in Support of Supplemental Objection (the “RJN”) filed concurrently herewith.

SUPPLEMENTAL OBJECTION

This Supplemental Objection addresses the material changes made to the Second Master Lease Compromise Agreement and the Bidding Procedures in the Debtors’ Revised Motions as well as information obtained in ongoing discovery.

A. Revisions to the Second Master Lease Compromise Agreement Expand Its Problematic Provisions

(1) If Approved, Revised SMLCA Would Order the Automatic Divestiture of SCI Assets upon a “Transfer Event”, without Court oversight and review.

1. In addition to the PropCo Support Agreement, the Revised SMLCA now incorporates the OpCo Support Agreement as well. As a result, there are a number of “Transition

Events” and “Transfer Events” that are completely unrelated to the payment of rent and the other obligations in the original Master Lease. Thus, if the Court grants the Debtors’ motion to approve the Revised SMLCA, regardless of whether this Court approves a disclosure statement or creditors vote or a plan is confirmed, the PropCo Lenders and Frank J. Fertitta and Lorenzo Fertitta (the “Fertittas”) will be able to obtain the transition services and Excluded Assets that they covet.

2. Under the Revised SMLCA, the transfer of the all of the assets contained in Annex 1 can occur upon a new event added to the Revised SMLCA, a “Transfer Event.” Revised SMLCA at ¶ M(iv)(1)–(3). Such “Transfer Events” include: (i) “a person other than the proposed purchaser under the Joint Plan is selected by SCI as the successful bidder . . .,” (ii) “the SCI prepetition lender voting class under the Joint Plan does not accept the Joint Plan and such Joint Plan is not confirmed pursuant to section 1129(b) of the Bankruptcy Code,” and (iii) if (y) the Joint Plan is not confirmed and (z) any OpCo Lender “that is a party to a support agreement with SCI breaches a material obligations under such agreement and such breach is the primary case of the Bankruptcy Court not entering an order approving (a) this Compromise, (b) the bidding procedures for SCI assets being proposed concurrently herewith, (c) the Debtors’ motion to extend exclusivity, or (d) confirmation of the Joint Plan.” See Revised SMLCA at ¶ M(iv).

3. The disposition of SCI’s assets should only occur through an auction process that allows for all of SCI’s assets to be put up for auction. Just as the concept of excluding assets from an auction is misplaced, so too is the automatic transfer of such assets outside of an auction process or a plan process where creditors can cast their vote on whether such a distribution should take place. Such a provision, which could only have been included in the Revised SMLCA to deprive SCI of the full value of its estates, is an impermissible mechanism to transfer assets and must not be countenanced by this Court.

4. To the extent that the Debtors continue to advance the meritless arguments that there is some alleged “benefit” to SCI because the asset transfers contemplated by the Master Lease will avoid litigation over the ownership of certain of these assets, such concern is easily addressed. [Debtors’ Reply to Objections re: Debtors’ Motion for Approval of Second Amended

1 and Restated Master Lease Compromise Agreement, [Docket No. 1323] at pgs.5-7]. Regardless
 2 of alleged “ownership” disputes, this argument fails for the obvious reason that through a section
 3 363 sale, such assets can be sold free and clear of liens, abrogating the need for ownerships of the
 4 assets to be determined.

5 **(2) “New” Asset Transfers or Excluded Assets**

6 5. As if the very concept of excluding assets from SCI’s auction is not troublesome
 7 enough, the Revised Motions incredibly keep adding assets to the list including, among others,

- 8 • Item 14. Wild Wild West trademarks and land. Under the Revised
 9 SMLCA, SCI is giving up all of its assets of Tropicana Station, Inc. and
 10 the “Wild Wild West Assemblage” to CV PropCo. This has no
 11 connection with the Master Lease or any other definitive legal document
 12 or obligation that the Debtors have disclosed and is a distribution that
 13 should either be done pursuant to a market-test auction or through a plan
 14 of reorganization. The Committee suspects that the Fertittas and the
 15 PropCo Lenders desire the entirety of the Wild Wild West land
 16 assemblage for two reasons – one, a portion is subject to the so-called
 17 “land loan,” whose lenders are, of course, the PropCo Lenders, and the
 18 PropCo lenders can now have the entirety of the assemblage subject to
 19 their interests; and two, while land values in Las Vegas still remain low
 20 (though it appears that there has been some positive growth in the last six
 21 months), the Wild Wild West assemblage has terrific long-term potential,
 22 given its size, location, and entitlements. Indeed, on information and
 23 belief, the assemblage is part of “Project V” or the Vista project, which the
 24 Debtors have continued to invest time and energy into postpetition.
- 25 • Item 8 – Primary Customer Database. Although customer lists are known
 26 to be extremely valuable casino assets, the Revised SMLCA, if approved,
 27 would require SCI to give its customer lists to PropCo which would then
 28 become a competitor for the “locals market” to PropCo or Fertitta-PropCo
 for inadequate consideration.

- Item 15. Net Working Capital. While the original SMLCA filed on April 7, 2010 (the “Original SMLCA”) [Docket No. 1179] provided that PropCo would purchase accounts receivable and deposits at “a purchase price” to be determined, under the Revised SMLCA, PropCo is now receiving them, net of liabilities.
- Item 17. Purchase Price. Under the Original SMLCA, the purchase price of the transfers in Annex 1 would be at a mutually agreed upon value and form of consideration or, if there was no mutual agreement, as determined by the Bankruptcy Court. Under the Revised SMLCA, however, if PropCo receives the assets of Annex 1, the price will be \$35 million. The only support for such figure, although even at the lowest point of that range, is the Alvarez & Marsal LLC report filed on April 28, 2010 (the “A&M Report”) and conducted by the OpCo Lenders. Notwithstanding such assertions, the A&M Report does not include in its valuation all of the assets that would be purchased by the \$35 million price set forth in Revised SMLCA.
- In the reply papers, the Debtors and the PropCo Lenders appear to suggest that the trademarks associated with the four casinos operated on the PropCo land are of de minimis value. As demonstrated in the exhibits attached to the RJN, SCI owns such trademarks, has repeatedly sought to protect its substantial investment, and the substantial value of such investment, in the trademarks associated with those four casinos. Such efforts have occurred postpetition, and have been supported by a declaration of Mr. Haskins – a PropCo director.
- GV Ranch Station Inc.
- Aliante Station LLC.

(3) The Texas Station Put Should Not Be Included in the Revised SMLCA

6. In the Revised SMLCA, the Debtors added a provision that states that the Texas Station landlord, who are the Fertittas’ parents, would release an alleged “put” right under the

1 Texas Station lease but only if the Joint Plan is confirmed and becomes effective (envisioning that
 2 the Fertitta/PropCo entity is the successful bidder for SCI's assets at auction). [Revised SMLCA,
 3 at ¶ M(x)]. However, paragraph M(x) states that if the Fertitta/PropCo entity is not the successful
 4 bidder for SCI's assets, the price of settling the Texas Station Put option will be fixed at \$75
 5 million, payable at closing of the SCI sale.

6 7. There is no written agreement concerning the "put" right, including in the April
 7 19, 2010 filings. The Texas Station Put was not mentioned in any motions or declarations filed
 8 on April 7, 2010. It is not mentioned in the proposed plan and disclosure statement filed in
 9 March. It is not even mentioned in the first-day declaration of Mr. Friel filed last year (which
 10 otherwise describes the lease arrangement). While touted as a really great deal for any potential
 11 third party purchaser, this "great deal" need not be reached at this point. Third party purchasers
 12 can resolve the issue of the Texas Station Put in a myriad of ways. At least one option to address
 13 the Texas Station Put is to have Texas Station file for bankruptcy, where such a provision would
 14 be unenforceable and can be addressed through the bankruptcy process.¹ Indeed, many lessors,
 15 when faced with a tenant in bankruptcy and an out-of-market lease, will renegotiate with the
 16 tenant so they can continue to have a stream of income rather than have no payments made on the
 17 lease.

18 **B. The Revised Bidding Procedures Should Be Modified so that a Fair Auction Can**
 19 **Take Place**

20 8. In order to provide for an auction process that can maximize value for SCI's
 21 estates, the Committee has prepared a markup of the Revised Bidding Procedures, attached as
 22 Exhibit A to the Steingart Declaration. While the Committee's primary objections to the Bidding
 23 Procedures were described in its prior objection, the central themes of the attached mark-up
 24 include (i) providing for a Sales Examiner to ensure a fair auction process, (ii) not excluding any
 25 of SCI's assets from the auction, and (iii) ensuring that adequate time exists for potential bidders

26 ¹ The Declaration of Richard Haskins contemplates that additional chapter 11 filings may occur. See
 27 *Declaration of Richard J. Haskins in Support of Debtors' (a) Motion for Entry of Order Establishing Bidding*
 28 *Procedures and Deadlines Relating to Sale Process for Substantially All of the Assets of Station Casinos, Inc. and*
Certain "Opco" Subsidiaries; and (b) Reply to Objections Re: Debtors' Motion for Approval of Second Amended
and Restated Master Lease Compromise Amendment, at ¶ 16 [Docket No. 1325].

1 to submit their letters of intent. **Just to be clear, the Committee has no qualms with the**
 2 **Stalking Horse Bid, just with the embedded necessary depressing effect the Excluded Assets**
 3 **component has on a real contest for the assets.**

4 9. The replies filed by the Debtors and the lenders seem to trump up all sorts of
 5 excuses about the auction, including why excluding assets from the auction will make for a
 6 smoother auction process, why Boyd's actions are nefarious at best, how the potential
 7 involvement of strategic bidders will or will not be affected, and so forth. But all of these
 8 arguments fall flat given the very nature of a competitive auction process, where each bidder
 9 comes into the auction room with its own set of strategies and goals for the auction. Such
 10 contested and active bidding process can only be viewed positively by this Court.

11 **C. Insider Conflicts Remain Despite the Debtors' Protestations to the Contrary**

12 10. The fact that the Debtors believe that they have been able to "deftly ensure that
 13 conflicts of interest are avoided" in reaching their deal turns well-established principles of
 14 corporate governance on its head. [Docket No. 1322, ¶35.] Discovery has confirmed that
 15 individuals on both sides of OpCo and PropCo were actively involved in the process and did not,
 16 in fact, recuse themselves. Richard Haskins testified at his deposition that Frank J. Fertitta III and
 17 Lorenzo Fertitta voted for the Debtors to enter into the SMLCA and the Bidding Procedures in
 18 spite of the fact that their Stalking Horse Bid and agreements with respect to New PropCo with
 19 the Mortgage Lenders were significant elements of both agreements. Haskins Deposition Tr. at
 20 14:18-18:2; 107:6-110:24 (Apr. 27, 2010). The inherent contradiction in the Fertittas' actively
 21 voting on the Debtors' actions, on the one hand, and benefiting from the "compromise" reached,
 22 on the other, is just the tip of the iceberg when it comes to how these cases are fraught with
 23 insider conflicts, and highlights how the Fertittas are on every side of the deal. Indeed, despite
 24 the testimony of Mr. Haskins, who is an officer of SCI and a director of PropCo, that he was not
 25 conflicted, another PropCo board member testified that Haskins was present at PropCo board
 26 meetings when the Revised SMLCA and the Bidding Procedures were discussed and even voted
 27 affirmatively as a director of PropCo on both matters while, during the same period, he was
 28 negotiating such matters as an officer of SCI. Compare Haskins Deposition Tr. at 132:2-133-1

1 (“Once we started on the road of a Master Lease Compromise, I . . . effectively recused myself on
2 the PropCo side”),² with Robert Kors Deposition Tr. at 94:7-97:5 (Apr. 30, 2010) (Mr. Kors
3 testified that Mr. Haskins was present and participated at the PropCo board meeting to consider
4 the Revised SMLCA and voted for it as a PropCo director).³ All this just serves to highlight how
5 the independence of SCI must be questioned at every turn.

6 Accordingly, for the foregoing reasons, the Committee respectfully requests that the Court
7 deny the Revised Motions and grant such other relief it deems appropriate.

8 DATED this 3rd day of May 2010.

9 Respectfully submitted,
10 **FRIED, FRANK, HARRIS,**
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² Excerpts from the deposition of Richard Haskins are attached hereto as Exhibit B to the Steingart Declaration.

³ Excerpts from the deposition of Robert Kors are attached hereto as Exhibit C to the Steingart Declaration.